



TRANSPARENCY IN THE GLOBAL BANKING SYSTEM

James Sagner, PhD
School of Business
University of Bridgeport, Bridgeport, CT

What is bank transparency?

- Public disclosure of reliable & timely information allowing the assessment of the condition of a bank (Bank for International Settlements)
- Basel II & Sarbanes-Oxley Act ('02) contain detailed rules & standards but no real implementation
- Significant gaps in the data required to analyze conditions in banking & to develop possible remedies

Should banks be subject to the same privacy rules as other businesses?

- Entirely new issue in context of '08-'10 global credit crisis
 - TARP
 - Federal Reserve & U.S. Treasury actions
 - International actions
- Should information usually held as confidential now be disclosed?
 - At the micro (business line) level
 - In the context of taxpayer loans & other assistance
 - Should government agencies & financial analysts have the right to access this information?

Are other countries like the U.S. regarding their banks?

- Insignificant difference between banking & other industries outside of the U.S.
- Difference between banks & other industries in the U.S. is -17.7%! (or presumed to be 1/6th less risky)!
- Wrong perception by global investors that U.S. banking is not risky

Are bank credit products profitable?

- Risk-adjusted returns show minimal profitability
 - 10 to 11% when a commitment fee is earned
 - *Equivalent to* bank capital costs
- About 6¾% on uncommitted ("no fee") lines
 - *Below* bank capital costs

What are the issues to consider?

- Should taxpayers subsidize credit, providing underpriced lending facilities to larger companies?
 - Similar relief not available to medium & small businesses or to individuals
- Should costs of capital & returns by product line be better understood by regulators, financial analysts & the public?
- How can banks be encouraged to earn the threshold capital costs required to avoid destroying shareholder value?

What are the future research opportunities?

- Global banking experience on profitability of bank products vs. costs of capital
- Profitability vs. capital allocation to bank products
- Variations by bank size & country

Capital Costs: Banks vs. Industry	
BEL	+2.5%
CAN	+11.9%
FRA	+3.9%
GER	-0.4%
ITA	-12.2%
JPN	+14.8%
UK	-7.0%
USA	-17.7%